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BUREAU OF INTELLIGENCE & RESEARCH  
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CHINA LIGHTS

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**EXCISE**

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I. PRC/US: CLOUD OF UNCERTAINTY (6/4)

The mood of Beijing's elite and its servitors on the second anniversary of Tiananmen is one of anxiety and fatalism. Unresolved succession issues and the US debate over China policy are among the many factors fueling uncertainty. Though optimistic about the long term, people fear the short-run consequences of political struggle, or social instability triggered by the death of key elders or by external pressure. They will endure the devil they know rather than risk the uncertainties of change they cannot even confidently predict, let alone control.

Chinese leaders and Beijing citizens are performing their prescribed roles in the long-running post-Tiananmen "normalcy" drama. The players are acutely aware that myriad developments could cause the script to be rewritten and that they will have little or no ability to control the outcome. Following the script has led not to paralysis but to caution and prudence. Whether leader, bureaucrat, or opinion molder, few are willing to recommended decisive action on sensitive matters that could trigger another system-wide confrontation.

Succession politics and regime longevity. Decision makers view policy options and external actions through lenses colored by succession politics. This has frequently been true in PRC history, but the demise of Leninist systems almost everywhere has added a new dimension. Leadership choices of personnel and policy have become hostage to the imperative of preserving the system. One result is that policies defy easy characterization as "reformist" or "hard-line." Foreign economic ties are openly welcomed and encouraged as essential for economic growth (a prerequisite for social stability and political survival), but

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religious influences, deemed to erode loyalty to the party and its official ideology, are secretly repressed. Freedom to pursue entrepreneurial activities and explore the boundaries of science and technology falls somewhere in between; the regime wants the potential benefits but fears the consequences of too much freedom.

Selective application of contradictory approaches is difficult, however, and there is considerable leakage across policy areas, affecting the system as a whole. Inevitably there is oscillation between a practical approach welcoming all domestic and foreign input that enhances economic development, and a mainly ideological stance that suspects all that is nonsocialist.

MFN and domestic politics. China's elite is convinced US actions could tip the balance of power in Beijing and that this could have profound, if unpredictable, consequences for the system. Recent leadership depiction of the United States as a resurgent hegemon implicitly defines US-China frictions as ideological confrontation, making it difficult under current conditions, or impossible, for anyone to offer more benign interpretations of US intentions. Self-serving leadership manipulation of internal information has heightened concern even among reformists that a more confident United States will boldly challenge ideological or strategic adversaries, including the Chinese regime.

Tiananmen, fear of uncertainty, and the success of reformers, intellectuals, and others in the elite in adjusting to the crackdown have reinforced traditional aversion to confrontation and "chaos," turning many former "revolutionaries" into new believers in the Confucian "doctrine of the mean." Many in the elite argue that external pressure will have uncertain consequences. Though there is a chance such pressure could speed the transition to democracy and prosperity, there is a risk it could make things worse, at least in the short run. Not many appear willing to take the risk. (CLHamrin)  
(CONFIDENTIAL)

## II. CHINA: GUANGDONG--ASIA'S NEWEST "LITTLE DRAGON" (5/31)

Having survived post-Tiananmen efforts by Beijing to rein in its free-wheeling economic style, Guangdong province is poised for continued rapid growth and even greater reliance on markets. The province's Pearl River delta--fed by foreign investment and exports--is rapidly joining Taiwan, South Korea, Singapore, and neighboring Hong Kong as one of Asia's economic dynamos.

"One step ahead" and pulling away. China's reform decade has been good to Guangdong. Until the late 1970s a sleepy backwater where incomes were below the national average and agriculture accounted for about one-third of GDP. Since 1978, industry and services have grown about twice as fast as agriculture; last year Guangdong led the country in industrial and GDP growth. Wages in Guangdong are now 35% higher than the national average; wages in the delta are almost two-thirds above the national average. Farm incomes have also grown rapidly.

In the provincial capital, 90% of households now own a color TV; 76%, a refrigerator--both up from 40% only five years ago. Rising incomes have led to a burgeoning local consumer market that may begin to replace exports as the motor of development by the end of the decade.

An ever-widening open door. Industrial growth in the province in 1990 was driven by the 45% increase in the output of firms having foreign investment. Last year at least one-third of total provincial output was exported (up from 26% in 1989), another third sold elsewhere in China, and only one-third consumed in Guangdong. Reforms have spread far beyond the original Special Economic Zones; all of Guangdong has become a mixed, market-oriented economy: the prices of 80 to 90% of its commodities are determined by the market. Provincial officials expect the market to play an even larger role in the future.

Intimate links with Hong Kong. Guangdong has attracted almost two-thirds of total foreign investment in China over the past decade, and more than nine of every ten investment projects in the province come from neighboring Hong Kong. Two million Guangdong workers--about three times Hong Kong's industrial labor force--are employed by firms in the province having Hong Kong investments; each day as many as 50,000 Hong Kong residents cross the border to manage factories in south China. About 70% of Guangdong's \$10 billion in exports are funneled through Hong Kong.

But Guangdong, after a decade of reform and development, is maturing, forcing changes even on its mentor, Hong Kong. Provincial officials and businessmen are positioning themselves to reduce dependence on Hong Kong middlemen and move up the scale from cheap export-processing to higher-technology and higher-value-added industries. Hong Kong's proportion of total investment in Guangdong dropped from about three-fourths in 1986 to less than two-thirds in 1990 as Taiwanese, South Korean, and other foreign investment grew rapidly.

Guangdong's investment arm now has a sizable property portfolio in Hong Kong, and a Shenzhen municipal firm has bought a chain of 200 electronics retail stores in the United States, on the West Coast. Ties between Hong Kong and Guangdong are certain to become even more intimate, but perhaps somewhat more equal, with Hong Kong's role shifting toward providing finance and services. (CClarke) (CONFIDENTIAL)

III. PRC/USSR: REAFFIRMING TIES, RESERVING DIFFERENCES (5/24)

The visit of party General Secretary Jiang Zemin to Moscow on May 15-19 scored no breakthroughs, but several important ties were reaffirmed or strengthened. Though the Jiang-Gorbachev talks were described as "frank and friendly," differing perspectives on reform and the West were not allowed to sour the relationship.

China's leaders have serious reservations about Gorbachev's "new thinking" and resent his easy willingness to cooperate with the West on human rights and other sensitive issues. But they also value their own new relationship with Moscow and see no alternative to working with Gorbachev. The Gulf war gave Beijing added incentive to boost the visibility--if not the content--of ties with Moscow, to signal Washington that both China and the USSR must be taken seriously in the "new world order."

Soviet media called the visit "an important advance" for Soviet Asian policy, playing up the boundary agreement covering most of the eastern (but not western) Sino-Soviet border as "the first real step toward military detente" in Asia. Beijing put the visit in the context of China's effort to improve relations with all its neighbors and continues to be unenthusiastic about Soviet proposals for an Asia-Pacific security dialogue.

Agreeing to disagree on ideology. Befitting Jiang's position as general secretary, more attention was paid to the importance of party-to-party ties than during earlier high-level visits, but harmony may have been achieved at the expense of substance. Both sides continue to paper over ideological differences by proclaiming mutual dedication to socialism, without elaboration.

The communiqué noted the importance of "stability," suggesting Gorbachev's domestic problems may have caused him to move closer to Beijing's preference for economic over political reform.

No obstacles to improving ties. Jiang described views on international issues as "similar or close." Disavowing "hegemony," both sides agreed on the need to strengthen the role of the UN. Cambodia, formerly contentious, did not generate much heat; the communiqué took a least-common-denominator approach. Jiang and Gorbachev also discussed the Middle East and Korea but issued only platitudes. There was reportedly some difficulty drafting language on Taiwan and the "one China" policy, given Beijing's unhappiness with Moscow's pursuit of Taiwanese investment.

Economic and military ties continue to develop. Both sides will continue to develop border trade, and Beijing's offer of a \$730 million dollar loan in February was most welcome to

Moscow. Jiang denied discussing military cooperation during the visit--both sides have been negotiating the sale and possible coproduction of Su-27s--but agreement appears close. Neither side sees the other as an immediate strategic threat, but each recognizes the other is a potential long-term adversary.

Beijing has privately queried Moscow about collaborating to counter what China sees as growing US dominance. Moscow, wary of getting entangled in China's troubles with Washington, was apparently unreceptive. The communique asserted the importance of improved Soviet-US ties but was silent on US-China relations. (DKingsland) (CONFIDENTIAL)

#### IV. CHINA: JOCKEYING FOR CONTROL OF SECURITY APPARATUS (5/29)

Party elders are vying for control over China's security forces, which, along with the military, will be crucial to the succession; younger leaders, for now, are playing a distinctly secondary role.

When Mao died, moderate leaders mustered the elite central guards to arrest the Gang of Four. Control over China's extensive civilian security apparatus--including the ministries of public and state security and the paramilitary People's Armed Police (PAP)--is likely again to be critical post-Deng, whether or not any group resorts to using force.

Security forces under fire. Since May 1989 the security services have been under intense pressure for "poor performance" during the Tiananmen protests; leaders complained they were not adequately warned or informed of the situation's seriousness.

[REDACTED] Subsequent escapes by dissidents further damaged security-force credibility.

Pressure for a shake-up in the security apparatus has intensified in recent months. Last December the public security minister--long identified as a weak link during Tiananmen--finally was sacked.

[REDACTED]

Yang Shangkun the main target. Much of this assault reflects real concerns about the loyalty and competence of the security forces. But several key elders also seek to undermine

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Deng Xiaoping's decade of reform has been punctuated by roughly biennial cycles of repression and relaxation. Democracy Wall protests in 1978-79 were crushed, and a number of protest leaders were jailed for as long as 15 years. Other crackdowns took place in 1981, 1982-83 (against "spiritual pollution"), and 1987 (against "bourgeois liberalization"). The nature of the crackdowns since Tiananmen is different, mainly because of the violent suppression of the Tiananmen protests, the intense foreign attention these attracted, and the duration of the repression.

The hard side. As it was throughout the 1980s, the Chinese communist system is most fierce against those deemed most threatening to "stability": those who try to organize political activity without party approval, especially among workers, ethnic minorities, the military, or other sensitive groups; those who attack individual Chinese leaders; and officials by name, including party members, who show "disloyalty."

The Tiananmen crackdown fell most heavily on the working class--all those reportedly executed for violent acts were unemployed or blue-collar workers, and workers appear to have received the stiffest prison terms. Intellectuals like Fang Lizhi and Shanghai writer Wang Ruowang--both of whom personally angered Deng--have been singled out for harsher treatment than those who merely espoused forbidden political ideas. Several former aides to ousted party chief Zhao Ziyang remain under investigation, and security services reportedly continue to harass and entrap others to obtain damaging information on politicians purged after Tiananmen.

The soft side. Meanwhile Chinese courts dealt "leniently" with the vast majority of those detained after Tiananmen. Several of the more outspoken intellectuals were released without formal prison sentences; a few were fired, but most appear to have returned to work, albeit with restrictions on writing and travel. Several elderly academics and scholarly administrators were retired but are allowed to write and travel, even abroad.



Biding their time. The party's strategy--in which it has more than 40 years experience--is to rely on the intimidating effect of attacking scapegoats: "killing a chicken to scare the monkeys," in Chinese parlance. During the decade of reform the effectiveness of this strategy diminished: each new campaign met with greater resistance and derision. The violence of the Tiananmen repression and the leadership's manifest willingness to impose its will, by force if necessary, has at least temporarily restored the strategy's effectiveness.

Opponents of the regime are sullen and intimidated but willing to await a new opportunity to push political reform after the party elders die, confident that the verdict on Tiananmen ultimately will be overturned.  
(CClarke) (CONFIDENTIAL)



VI. TAIWAN/SOVIET UNION: DEVELOPING TIES AND PRC PROTESTS  
(5/24)

Dramatic changes are occurring in relations between Taiwan and the Soviet Union. Trade is growing exponentially, the mayor of Moscow and numerous other Soviet officials have visited Taiwan, and Taipei appears prepared to extend economic assistance. But Beijing's sensitivity and strong objections to interchanges with the air of officiality constrain what is possible. Nevertheless, economic and other unofficial ties are likely to broaden and deepen in the months ahead.

Over the past two years, Taiwan has made concerted efforts to develop ties with the Soviet Union in order to diversify its markets, expand investment opportunities, and as importantly, to enhance its international standing by scoring symbolically important gains at Beijing's expense. These efforts have met with some success, namely the exchange of visits by middle-level officials (largely republic-level rather than "union" officials from the USSR), cultural and academic exchanges, a dramatic increase in trade and investment, and discussion of establishing a trade office. Beijing has protested the ostensibly private visits of high-level Soviet officials, and has extracted from the Soviets both additional public statements of support for the one China principle and a pledge not to move beyond unofficial ties with Taiwan.

A steady stream of Soviet commercial, sports, and cultural delegations; academicians; and officials has visited the Taiwan since the breakthrough visit by Moscow Mayor Popov last October. A number of Taiwan officials have also visited the Soviet Union; the most recent is the top science advisor to the Executive Yuan.

PRC protests caused the Soviets to cancel a scheduled visit to Taiwan by the minister of culture last year, and to cancel a visit this month by Taiwan economic Vice-Minister P.K. Chiang. Chiang is currently leading a 62-member delegation of officials and business representatives on a high profile visit to eastern Europe. The fact that Chiang's proposed visit to the Soviet Union would have followed close on the heels of Jiang Zemin's may have especially irritated the PRC. The Soviets have indicated they are still willing to receive the delegation, provided it does not include Chiang. We do not know whether Taiwan won Soviet approval to receive the delegation by indicating the mission would offer economic assistance from Taiwan's billion dollar International Economic Cooperation and Development Fund or if it will use this incentive to press for Chiang's inclusion. The delegation also plans to discuss opening a trade office in Moscow.

Taiwan's Considerations. Over the past year, Taiwan has shifted from buying diplomatic relations with small impoverished countries to seeking to establish or upgrade unofficial ties

with major countries. Using the incentive of potential deals with Taiwan as bait, Taiwan has pursued vigorously the new strategy. Establishing ties with the Soviet Union has been a major achievement of the new policy.

Taiwan also looks to the Soviet Union for trade and investment opportunities. The potential market for computers and other goods produced in Taiwan is huge, and Taiwan hopes to acquire raw materials, including oil, from the Soviet Union. One Taiwan company has already set up a computer manufacturing venture in the Soviet Union, but economic difficulties in the Soviet Union, its inconvertible currency, and Taiwan's lack of experience doing business there will slow development of economic ties.

PRC Considerations. Beijing claims it does not object to other countries developing economic and other unofficial ties with Taiwan but it does object strongly to any kind of official relationship. Given the practical necessity of official involvement in economic relations, however, the PRC's declared policy has proven unrealistic and unworkable. Moreover, the lack of a clear distinction between unofficial and official relations has given Taiwan substantial room to maneuver; many countries simply declare their ties with Taiwan to be unofficial. Taiwan, by contrast, regularly stresses the officiality of ties and contacts to gain increased international recognition. PRC protests are of limited effectiveness. In practice, the PRC most strongly objects to visits to or from Taiwan at the ministerial level or above--even if called private--to official agreements, and to setting up official-sounding offices.

Prospects. Soviet economic problems and PRC protests will slow--and ultimately limit--development of ties between Taiwan and the Soviet Union, but both Moscow and Taipei have strong incentive to continue exploring the limits of the possible.  
(MFinegan) (CONFIDENTIAL)

VII. PRC/TAIWAN: SPELLING OUT TAIWAN POLICY

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